

Background Information on the
REPUBLICAN RAID ON STUDENT AID

* Updated January 10, 2006 *

Last month, the **Senate passed a budget-cutting bill that takes a net of \$12.7 billion out of the federal student aid programs in order to help finance tax breaks for the wealthiest Americans.** Seventy percent of the gross savings (which total approximately \$21 billion) generated in the bill are achieved by continuing the practice of forcing student and parent borrowers in many cases to pay excessive interest rates on their loans and by increasing college loan costs for parent borrowers.

Before the Senate vote, the House had passed a similar version of the budget reconciliation bill, or conference report. However, these cuts have not been finalized yet because the House must first vote to approve several changes that the Senate made the final conference report. The House is expected to take this vote on February 1, 2006.

Congress should be making college more affordable, and it could do so at no new cost to taxpayers and without adding to the budget deficit. The federal government pays excessive subsidies to lending institutions in the student loan industry. By cutting those subsidies, Congress could use the savings to make college more affordable without costing taxpayers an extra dime. But instead, **Washington Republicans have made two choices:**

- **First, they have chosen not to make many cuts to the lender subsidies that were proposed in earlier versions of the legislation from both the House and the Senate.** The conference report passed by the Senate – and set for a vote in the House in a few weeks – does reduce or eliminate some excessive lender subsidies, but it leaves many more in place.
- **Second, they have chosen to put college further out of reach for American students and families.** The net \$12.7 billion that Washington Republicans have cut from the student aid programs is not going towards deficit reduction, as Republicans have claimed. Instead, those savings will finance additional tax cuts for the wealthiest Americans.

Put simply: Republican leaders have chosen to allow big banks to keep their excessive taxpayer subsidies and to bestow multi-billion-dollar tax cuts on the wealthiest Americans – all at the expense of students and parents struggling to pay for college at a time of rapidly rising tuition costs.

Where do the savings come from in the budget reconciliation conference report?

- The Republican conference report raises the interest rate cap that parent borrowers pay on their college loans from 7.9 percent to 8.5 percent. It also requires student and parent borrowers to continue paying excessive, above-market interest rates on their loans in many cases.
- The conference report eliminates \$2.2 billion in critical funds with which the Department of Education uses to administer and deliver federal student aid. Without these funds, the timely and safe delivery of federal student aid is in jeopardy. According to the Bush Administration, these funds are necessary to: disburse \$117 billion in student aid grants and loans to nearly 10 million students; process more than 13 million federal financial aid applications; oversee the participation of more than 6,200 schools in the student loan programs; and collect \$105 billion in outstanding direct student loans.

- The conference report requires lenders to either collect a 1 percent “insurance fee” from borrowers on all college loans, or to raise this fee from other non-federal sources. The most likely scenario is that college loan borrowers will wind up footing this bill.

Republican conference report fails to end wasteful lender subsidies

The budget reconciliation conference report does reduce some wasteful subsidies paid by the federal government to banks and lending institutions in the student loan industry – but the report fails to reduce or end certain excessive subsidies. Provisions that were dropped altogether, or that were reduced, from the conference report include:

- *Reduction to excessive guaranty agency collection fees.* Even the Bush Administration’s 2006 budget recommended that these fees be reduced by \$985 million over 5 years – but the Republican conference report leaves these excessive subsidies in place.
- *Lender origination fee.* House and Senate bills approved earlier this year would each have charged lending institutions a 1 percent “origination fee,” up from the current 0.5 percent. According to the Congressional Budget Office, the House bill would have generated \$1.735 billion over five years. But the conference report approved by the Senate drops this provision.
- *Lender insurance exposure.* Under current law, one of many subsidies to lenders in the guaranteed student loan program, is a federal guarantee on student loans of 98 percent – meaning that even if a student fails to repay the loan, the lender is covered for 98 percent of the loan with taxpayer money. The Bush Administration found that this level of guarantee was unnecessary to encourage lenders to lend to students and proposed scaling this coverage back to 95 percent, which would have saved \$1.245 billion over five years. But the Republican conference report only takes it to 97 percent, saving just \$505 million over five years.
- *Loan consolidation fee.* The Congressional Budget Office estimates that raising the consolidation fee from 1.05 percent to 1.3 percent on consolidation loans held by lenders with 90 percent or more of their total student loan volume in consolidation loans would generate \$90 million over five years.

Republicans fail to raise Pell Grant value for fourth year in a row

The bill does create \$3.75 billion in new grants for college students pursuing math, science, or foreign language. But many students with need will not receive any new scholarship money. For four years in a row, the Republican-led Congress has failed to raise the maximum value of the Pell Grant scholarship – now set at \$4,050 – even though it is worth \$900 less, in inflation-adjusted terms, than it was worth in 1975-76.

For more information

Visit <http://www.house.gov/georgemiller>